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**national farmers union**

*In Union Is Strength*



**National Farmers Union**

**Submission**

**to the**

**Standing Committee on Agriculture**

**on the subject of**

**Bill C-132**

**An Act to amend the Western Grain Stabilization Act**

**presented in**

**Ottawa, Ontario**

**July 19, 1988**



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NATIONAL OFFICE  
250C - 2nd Avenue S.  
Saskatoon, Sask., S7K 2M1  
Fax (306) 664-6226  
Tel (306) 652-9465



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We appreciate the opportunity of expressing our views on Bill C-132 which proposes amendments to the Western Grain Stabilization Act.

There are features of the W.G.S.A. that have never, since day one, fulfilled the requirements of a comprehensive stabilization program. The amendments proposed in Bill C-132 still do not address our concerns in that regard. Indeed, it is questionable whether the W.G.S.A. can ever be amended in a way that will adequately address the income protection requirements of farmers.

There is no denying that the program has made massive payouts in the past three years as a consequence of the devastating U.S.-E.E.C. grain trade price war. Even when taking into account the recent payments from the fund, the federal government was required to supplement farm income losses in the past two years through payments of \$2.1 billion under the Special Canadian Grains Program.

Recent experiences have demonstrated that the W.G.S. Plan could not withstand the devastating impact of a major grain trade price war which has effectively bankrupted the program. We primarily look upon Bill C-132 as an attempt to salvage the W.G.S.P. from total extinction.

BACKGROUND:

In the context of the discussion of Bill C-132, we believe it is important to briefly review the origins of the W.G.S. Act and its track record in fulfilling an objective "to maintain net cash flow to prairie grain producers, from grain sales, at the level of the average for the previous five-year period."



Stabilization programs for most agricultural commodities have been directed toward supporting prices. Grain sales, on the other hand, fluctuate both in volume and price in response to international market supplies and demand, all of which are beyond producer control.

A grain stabilization plan was first proposed by the Task Force on Canadian Agriculture report of 1970. However, export volumes had declined and carry-over stocks were large. A price support plan was not acceptable to many.

On April 29, 1971, Bill C-244 was given first reading and cited as The Prairie Grain Stabilization Act. It would have supported gross receipts at the level of the previous five-year average. Bill C-244 did not include consideration for costs. It eventually died on the order paper. In 1974 the net cash flow concept was proposed.

On January 28, 1976, the Western Grain Stabilization Act was approved by the House of Commons and came into force on April 1, 1976. The Plan was to pay out to producers when net cash flow fell below the previous five-year average.

It was emphasized from the outset that the W.G.S. Plan was not a guaranteed income scheme for individual producers but was designed to stabilize the net cash flow into the prairie region from sales of the six grains that were included. Its disregard for individual farmer income needs remains one of its greatest weaknesses. It was also stressed that the Plan was not designed to replace crop insurance.

All Wheat Board permit book holders were initially included under the Plan but were extended a three-year period to opt out. Producers paid in 2% in gross receipts up to \$500 while the government contributed 4%. Producer levies maintained annual maximums of \$500 for 1976/77/78 and then increased to \$900 from 1979 - 1982 inclusive. In 1983 the levy rose to \$1200.

From the date of commencement of the program (April 1, 1976) to the end of the 1983 calendar year, payouts to producers were made only in 1977 and 1978, totalling \$368 million. The fund balance at the end of 1983 stood at \$885 million. The plan did not make a payout



in 1982 despite a decline in grain prices. In 1983 gross receipts reflected a 9% increase in the volume of marketings which again more than offset a 3% decline in the average price of grains and oilseeds.

The perception grew among farmers that the W.G.S.P. was not providing assistance when needed. In 1982 there were 78 farm bankruptcies reported in the prairies. This increased to 154 in 1983. At the same time farm debt increased, farm loans fell into arrears, land prices declined, farm machinery sales slipped - but the W.G.S.P. did not respond.

Prompted by the fund balance, producer levies were lowered to 1½% and the federal contribution to 3½% effective January 1, 1984. Commencing August 1, 1984, the fiscal year of the Plan was made to coincide with the crop year.

A \$223 million payment was triggered for the 1983/84 crop year. A partial payment of \$100 million was issued in August, 1984, and the balance of \$123 million paid out in November.

In February, 1985, the government approved a major amendment to the Act which provided for the issuing of interim payments in the spring prior to the July 31st end of a crop year.

In April 1985, a \$450 million interim payment was authorized followed by a final payout of \$72 million.

The government had also called for a comprehensive review of the Act. (The House of Commons Standing Committee on Agriculture conducted the review and tabled its report and recommendations on February 14, 1986.)

On August 1, 1985, producer levies declined from 1½% to 1% and the government levy was fixed at 3%. Maximum producer levies dropped from \$900 to \$600 per crop year.

The international grain price war intensified. Grain prices dropped by 50%. In the 1985/86 crop year, stabilization payments of \$859 million were issued. In April, 1987, a record interim payment of \$705 million was authorized and a subsequent final payment increased



the 1987 payout to \$1,395 million.

The interim payment of \$695 million issued in May, 1988, increased the fund's deficit to \$2.2 billion. Passage of Bill C-132 will authorize a write-down of \$750 million of that deficit. Producer levies will increase to 4% and the government will raise its contribution to 6%. This shift in levy contributions changes the producer ratio from 1:3 to 1:1.5 and has the effect of transferring a larger share of the cost burden onto producers.

#### EVALUATING THE PLAN:

As the background reveals, the Plan has performed in an erratic manner since its inception. In its first seven years of operation, circumstances were such that the triggering formula for payouts was too insensitive to rising costs and falling grain prices measured against rising export volumes. Payouts were recorded in only 1977 and 1978 during the period 1976 to 1983.

Because it is voluntary, the historical participation of producers has ranged from a low of 74.1% in 1978 to a current high of 87%. In 1987, about 4,000 producers joined the Plan, but about 20,000 still remain outside the Plan.

While Bill C-132 attempts to encourage additional producers outside the plan to enter by offering to remove the 10% penalty payment for current conditional participants and for producers who rejoin the W.G.S.P. in future, we anticipate that many such producers will seriously assess the implications of so doing. Payouts under the Plan peaked in 1986-87. They have declined in 1987-88 and are forecasted to decline again in 1988-89 because of past low grain prices which will weigh heavily in the five-year net income formula. The Western Grain Stabilization administration forecasts there may be no payouts in 1989-90, although low production may trigger a payment.

In any event, we believe the July 31, 1988 deadline proposed for rejoining the Plan is too short a time considering the Bill will not likely have passed the Commons by that date.

Similarly, we believe the reduction in the initial opt-out



period from three years to one year for new participants is too short a period for such entrants to assess the Plan. We note participants who joined in 1985-86 and 1986-87 and all other participants are also extended the July 31, 1988 opt-out deadline. The relatively short time frame offered in making this important decision is said to be related to the extensive changes being made by Bill C-132 but it appears to be directed more toward locking producers into the Plan as quickly as possible in the government's zeal to correct the fund deficit. We question whether the majority of participants are fully aware of their right to withdraw by July 31st. We recommend the opt-out deadline be extended to December 31, 1988.

Non-participants considering entry will seriously assess the wisdom of entering the Plan at this time because of the dramatic jump in the levy from 1% to 4% of gross receipts which will cost them a maximum contribution of \$2400. This is not an insignificant amount in a period of relatively low prices.

A further problem associated with the increase in levy (which has been part of the program since the outset) is that producers have no idea what level of income stabilization they can expect from the payment of their annual levy because the Plan does not provide individual income protection. Although a participant may have paid his maximum levy but still experienced an income shortfall in a current year relative to other years, he cannot rely on having that shortfall covered.

On the other hand, participants who will gain the most in a payout year are those who have been able to maintain their levy contributions at the maximum level. They may be least in need of stabilization but will receive a maximum payment. In other words, the Plan is not designed to target producers who are in greatest need of stabilization. It is ironic that the misfortune of some individuals may cause the circumstances for a payout to be triggered, although they may receive nothing or very little from it. This form of reverse discrimination is difficult for many to comprehend, particularly in the drought areas of the prairies.

As previously noted, the payouts from the fund of the past five years have been in response to the artificially low grain prices



on world markets as a consequence of the U.S.-E.E.C. grain trade price war. Considering that an original-stated objective of the W.G.S.A. was to make it "actuarially sound," it is apparent it was not designed to withstand the type of severe grain price declines experienced over the past four years.

All grain producers have been severally affected by the grain trade price war but those under the W.G.S. Plan were better protected than those outside the Plan because massive federal funds were poured into the W.G.S. Plan to cover its mounting deficits. In addition, all participants also benefited from the Special Canadian Grains Program.

This has given rise to suggestions among some producers outside the W.G.S. Plan that they should have been permitted to join and pay levies into the Plan retroactively for a period of 5 years in order to benefit from payments. It has also been suggested that all non-participants should receive payments in proportion to the \$750 million deficit write-off proposed in Bill C-132.

While the Committee may not share these views, the very clear indication is that many producers feel all producers are victims of an exceptionally vicious grain trade price war and the response of government should be to deal equitably with all producers under this circumstance. We fully agree that all producers should be treated equitably in circumstances of national disaster. We are certain that Bill C-132 will not correct the past inequities.

The time may be at hand to reconsider concepts for the best way to protect farmers from becoming bankrupted at the hands of foreign treasuries, the vagaries of the marketplace or the vagaries of nature.

In our view, the primary underlying thrust of the W.G.S.A. is directed toward maximizing production and attempting to offset lower grain prices and farm incomes by the sheer expansion of trade volumes. The pursuit of this objective is now highly questionable.

As experience has demonstrated, the W.G.S.A. is not directed to protect the income needs of individual producers, as is crop insurance, for example. It has not proven to be actuarially sound. It has not proven to be adequate in replacing lost farm income by virtue of



the need for \$2.1 billion payments under the Special Canadian Grains Program, most of which was allocated to Western Canada.

A universal program for farm income protection is needed which can be specifically targeted to the needs of individual producers. The need for a comprehensive program once again comes to our attention by the current need for special drought assistance. This confirms that the existing crop insurance program, while directed toward assisting individual farmers, once again falters because it is inadequate for even those who are in the program and, because it is voluntary, bypasses those without coverage.

The sum total of funds directed into the W.G.S.P., the S.C.G.P., crop insurance, the Agriculture Stabilization Act and Tripartite Stabilization should be pooled and redesigned into a National Farm Income Protection Program from which all producers would benefit and in which all ideally would be required to participate. In such a comprehensive scheme it should be conditional that those who choose not to participate could not presume ad hoc programs would be devised to meet every future crisis situation which might develop.

This proposal is of course beyond the terms of reference of this Committee. What we are saying in an indirect way is that we look upon the proposed amendments to Bill C-132 as tinkering on a concept that is flawed and has quite possibly already served its purpose. The recovery of the W.G.S.P. outstanding deficit remaining after the \$750 million deficit write-down appears to be the primary intent of Bill C-132 and this does nothing to enhance the credibility of the program. We strongly recommend that among your considerations of all the implications involved in stabilizing farm income, this Committee agree to propose that a comprehensive farm income protection plan be drafted that will better target and serve the income needs of individual farmers.

There are included in Bill C-132 a number of other amendments. We will comment briefly on some of them.

. We agree in principle that the list of eligible crops should be expanded under the Plan. We note that edible beans, corn and soybeans are excluded because they are currently included for stabiliza-



tion under the Agriculture Stabilization Act. We remind you that the A.S.A. is universal in its application to these and other crops included under its mandate and does not require the payment of producer premiums or levies. To this extent, it is a reminder of the contradictions that exist in our national approaches to farm product stabilization.

. We agree in principle that the size of the aggregate payment should not be reduced when there is a deficit in the Stabilization Account.

. With respect to the increase in the producer levy rate from 1% to 4%, we have already made the point that it distorts the producer-government ratio from 1:3 to 1:1.5, in effect transferring a greater responsibility for fund financing upon producers. In comparison to previous years, the current producer-government ratio is the narrowest since the inception of the plan as illustrated below.

<u>Period</u>	<u>Producer Levy %</u>	<u>Government Levy %</u>	<u>Ratio</u>
1976 to 1983	2.0	4.0	1:2
1983 (Jan. 1) to 1985 (July 31)	1.5	3.5	1:2 1/3
1985/86 to 1987/88	1.0	3.0	1:3
1988/89	4.0	6.0	1:1.5

We recommend the producer-government contribution be maintained at a 1:3 ratio.

We understand the immediate "up-front" levy deduction will be 2% for 1988-89 crop year but the producer's liability for the additional 2% is still subject to deduction from future payments. This provision could be dropped to restore a 1:3 ratio.

. We agree in principle that producer levy rates ought to be adjusted downward when surpluses appear in the account.

. We agree in principle that appropriate levy deductions be made by provincial crop/hail insurance agencies prior to the issuance of indemnity payments to program participants on program crops effective for the 1989-90 crop year.

. We question the proposal of allowing producers in the



Canadian Wheat Board designated area who are not Canadian citizens or permanent residents of Canada to participate in the program.

We recommend instead that participation of non-Canadians be restricted to producers who have landed immigrant status and are residing within Canada. The provision as proposed can only encourage greater foreign ownership of farm land and enable corporations and absentee landlord persons benefiting from the payout of Canadian tax dollars. Such an accommodation also points in the direction of promoting equity financing arrangements, the concepts of which are not generally supported in the farm community.

. We accept in principle the proposal to increase the Advisory Committee from five to eight persons.

In conclusion, we reiterate our earlier position that we believe we have approached the time when the entire concept of stabilizing farm income requires a thorough overhaul. We hope you agree and will initiate actions to begin this process.

All of Which is Respectfully  
Submitted by:

NATIONAL FARMERS UNION







national farmers union



